

COMPENSATION STUDY: EXECUTIVE SUMMARY

Texas Municipal Retirement System (TMRS) Austin, TX

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Study Background

Background

- Gallagher Benefit Services' Fox Lawson Group (FLG) was engaged to perform a review of base compensation for the Texas Municipal Retirement System (TMRS) and make recommendations regarding:
 - Current state of compensation;
 - Market competitiveness of specific employee benchmarks;
 - Salary structure adjustments based on market data and internal hierarchy; and
 - Costs associated with recommendations.
- FLG performed a full classification and compensation study for TMRS in 2014. The current study is an update based on FLG's administrative recommendations to perform a full compensation study every 3 years.
- The major considerations of TMRS are to:
 - Establish market comparisons against the current pay structure utilizing market actual salaries and established internal hierarchy.
- The following items were provided by TMRS to facilitate the study:
 - Current salary and pay range data for all TMRS positions;
 - Current classification plan for all TMRS jobs; and
 - Current employee census.

Study Background

Objectives/Philosophy

- Market study objectives were identified in 2014 and reconfirmed in 2017 and include:
 - Compensation levels reflective of applicable public and private sector labor markets covering TMRS jobs with pay grade midpoints reflective of the 50th percentile of the relevant labor markets.
 - A comparison of TMRS salary range midpoints against the median of actual salaries paid in the market for specified benchmark positions.
 - Comparator organizations were selected that met the following criteria:
 - Similar organizations in the United States and/or Texas market
 - Similar-sized (50% to 200% of fund size) investment/pension industry organizations.
 - Similar in character as TMRS (externally managed, \$25-\$50B in funds)
 - Public and private sector organizations with which TMRS competes for talent
 - Compensation will be viewed from a base pay perspective
 - Classifications will be placed in the proposed structure based on their current evaluated rating (DBM® rating).

Survey Methodology

Survey Participants

Twenty-four (24) organizations were invited to participate in the custom survey; the data presented in the report is reflective of 16 organizations (67%). Eight (8) organizations declined to participate or did not respond to our multiple requests for data.

Participating Organizations
City of Austin Employee Retirement System
Colorado Public Employees Retirement System
Dallas Fire & Police Pension System
Employees Retirement System of Texas
Employees' Retirement System of Georgia
Fort Worth Employees Retirement Fund
Houston Firefighters' Relief and Retirement Fund
Indiana Public Retirement System
Los Angeles Fire and Police Pension Fund
Michigan Municipal Employee Retirement System (MERS)
Missouri State Employee Retirement System
Ohio Police & Fire Pension Fund
Pennsylvania State Employees Retirement System
Teachers Retirement System of Texas
Texas County & District Retirement System
Texas Education Association Permanent School Fund

Non-Participating Organizations
Employees Retirement Fund of the City of Dallas
Houston Municipal Employees Pension Fund
Houston Police Officer's Pension System
Illinois Municipal Retirement Fund
Kansas Public Employees Retirement System
State Universities Retirement System of Illinois
Tennessee Consolidated Retirement System
University of Texas Investment Management Company
Published Survey Sources
CompData Benchmark Survey
Mercer (Multiple Surveys)
US Public Funds Compensation Survey (McLagan/Aon)
Willis Towers Watson

Notes:

Organizations in bold also participated in the 2014 salary survey.
 Data extracted from published survey sources has been adjusted to reflect the cost of labor in Austin, TX and has been aged to 1/1/2018

Survey Methodology

Benchmark jobs

- Benchmark jobs were identified utilizing the following criteria:
 - Ensure at least 50% of the employee population is represented;
 - Positions commonly found in the marketplace;
 - Positions representative of all functional areas within TMRS;
 - Positions representative of all levels (entry through management) within TMRS;
 - High incumbent positions;
 - Positions that are difficult to recruit and/or where high turnover exists.

Survey Methodology

Benchmark jobs

The tables below lists the benchmark jobs surveyed in this study.

Benchmark Title
Actuarial Analyst ¹
Administrative Assistant
Assistant Finance Director
Business Process Analyst
Chief Investment Officer
Communications Technology Specialist
Compliance Officer
Database Developer
Director - Absolute Return Strategies ¹
Director - Fixed Income
Director - Internal Audit
Director - Real Estate
Director, Actuarial Services
Director, Communications
Director, Equities
Director, Finance
Director, Governmental Relations

Benchmark Title
Director, Human Resources
Director, Information Technology
Director, Investment Risk Management
Director, Member Services
General Counsel
Investment Analyst I - Fixed Income
Investment Analyst II - Hedge/Absolute Returns
Investment Operations Analyst
Investment Operations Manager
Investment Support Analyst ¹
Legal Assistant
Marketing Communications Project Manager
Member Services Manager
Member Services Representative, Senior
Network Operations Manager
Network Security Analyst
Performance Analyst

Benchmark Title
Quantitative Analyst
Records Technician
Regional Account Manager
Senior Account Representative
Senior Internal Auditor
Senior Investment Attorney
Senior Records Technician
Senior Software Architect
Senior Staff Attorney
Senior Systems Analyst
Software Development Manager
Software Engineer
Software Quality Assurance Analyst
Support Services Analyst
Systems Administrator

¹ Insufficient data available for comparison

Survey Methodology

Survey Data Collected

- FLG developed a survey questionnaire to collect salary data in a fashion that was standard and easy to quantify and analyze.
- Results include data from 16 comparator organizations and published survey data.
- FLG followed up with each organization to encourage participation.
- FLG reviewed and entered the data collected from participants.
- FLG followed up directly with participants to clarify and validate missing or questionable information reported.
- FLG asked organizations to make a match for only those jobs that reflected at least 80% of the duties as outlined in the benchmark summaries.
 - If there were any questions in job matching, we reference job descriptions, organizational charts and other information to verify that the match is valid.
- All data are effective August 2017 and reflect an annual basis.
- FLG follows the U.S. Department of Justice and Federal Trade Commission guidelines that state 5 job matches should exist per job in order to conduct statistical analyses or for drawing conclusions.

TMRS Review of Data

Compensation Committee

- Upon completion of data analysis by FLG, the information was shared with the TMRS Board Compensation Committee. Upon review by the committee, several items were noted:
 - Concerns with some of the custom survey comparators (too small, active management, external management, too large, etc.)
- Following several reviews with the committee, adjustments were made to the comparator market for the Investment jobs to focus on data obtained from the McLagan survey
 - Specifically, data cuts from externally managed organizations were collected and aged in order to obtain data that was more reflective of the type of investment work performed at TMRS
- Upon agreement of the methodology to employ in analyzing the competitiveness of Investment jobs at TMRS, analysis continued and is reflected in this report.

Survey Participant Demographics¹

	Comparator Market Average	Comparator Market Median	Comparator Market Low	Comparator Market High	TMRS
Assets Managed	\$16.7 B	\$12.8 B	\$2.2 B ²	\$125.0 B	\$27.0 B
Number FT Employees	176	128	14	778	108
Number Job Classifications	61	50	3	158	70

Externally Managed	Internally Managed	Internally & Externally Managed
38%	7%	25%

Internally & Externally Managed	
Passive	Active
47%	53%

%s do not add to 100%; 6 organizations were data-mined and information was not provided.

- 1 Comparator market organizations are representative of organizations with whom TMRS competes for talent. Size anomalies (both larger and smaller organizations) exist due to the proximity of the organizations to TMRS and/or the market for talent.
- 2 Smaller organizations did not have matches to many of the higher level jobs; additionally, data that was considered an outlier (+/- 2 standard deviations) was excluded from overall analysis.

Geographic Differentials

Geographic Differentials

Geographic Differentials by Location:

	Geographic Differential
Organization	Factor Adjustment
Atlanta, GA	99.9%
Austin, TX	100.0%
Champaign, IL	101.2%
Columbus, OH	102.7%
Dallas, TX	95.8%
Denver, CO	96.6%
Fort Worth, TX	101.6%
Harrisburg, VA	100.6%
Houston, TX	93.6%
Indianapolis, IN	105.2%
Jefferson City, MO	113.9%
Lansing, MI	104.8%
Los Angeles, CA	88.0%
Nashville, TN	110.8%
Oak Brook, IL	95.1%
Topeka, KS	113.8%

Geographic Differential Application Examples:

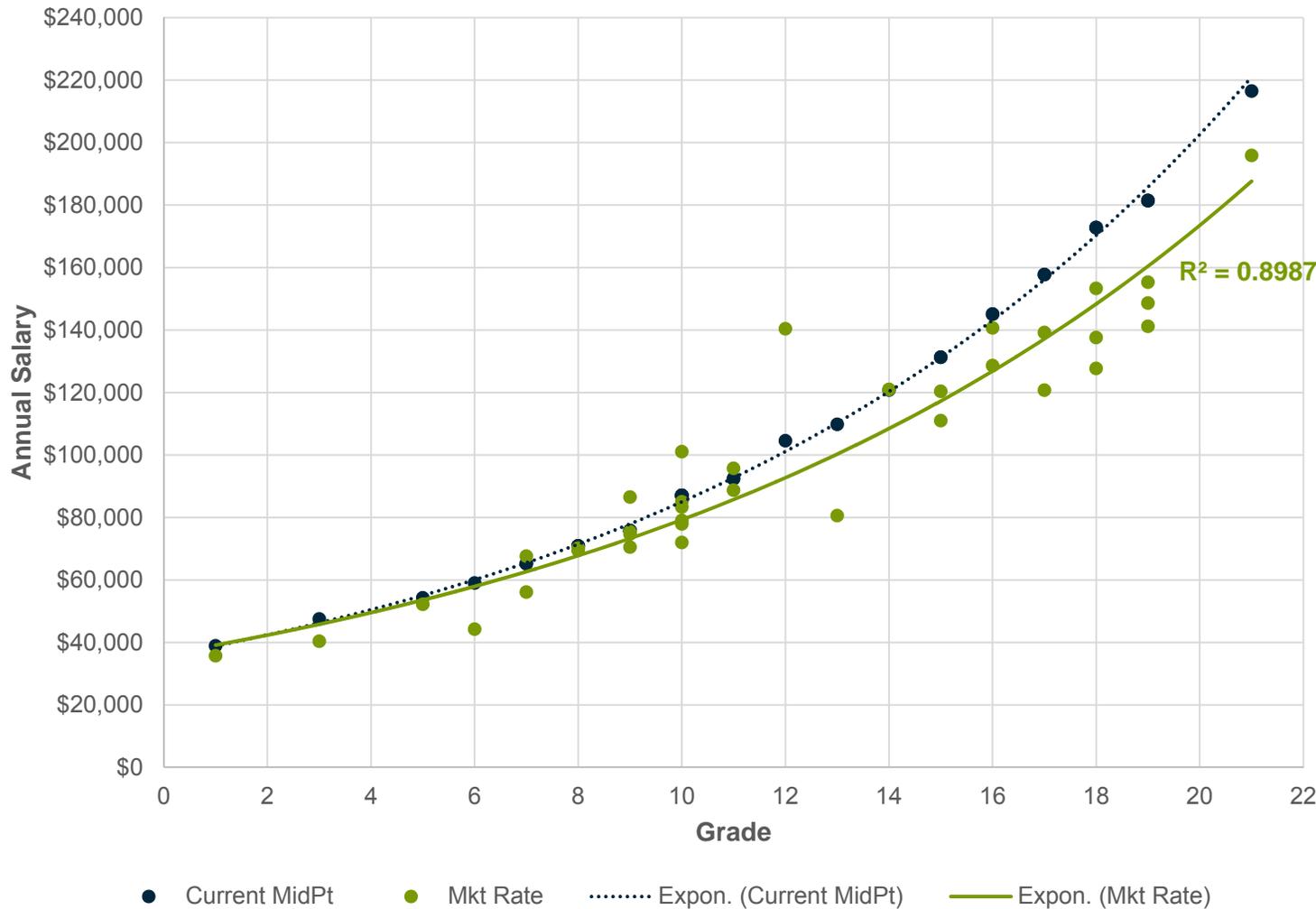
- Denver, CO has a **higher** cost of **labor** than Austin, TX; therefore, data reported by organizations located in Denver were adjusted **down** by 3.4% to normalize the rates of pay in Denver to reflect the cost of labor in Austin.
- Jefferson City, MO has a **lower** cost of **labor** than Austin, TX; therefore, data reported by organizations located in Jefferson City were adjusted **upward** by 13.9% to normalize the rates of pay in Jefferson City to reflect the cost of labor in Austin.

NON-INVESTMENT JOBS

Compensation Analysis

Summary of Salary Data Comparisons

TMRS Current Range MidPoints vs Market Median Actual Salaries: Non-Investment Jobs



FINDINGS:
Overall, current midpoints of all jobs, excluding Investment jobs, lead the market by 10.3%.

Review of Incentive Compensation

Market Comparisons

- Incentive compensation can vary significantly year-over-year depending on the incentive plan design and market conditions;
- TMRS MidPoint vs Median Base+Inc Comp is reflective of the market's **target incentive** at goal and thus may not be reflective of actual payouts;

		Orgs Offering Incentives ¹	Average Mkt Incentive	TMRS MidPt vs Median Base+Inc Comp
Employee Group	Market Sector			
Non-Investment Jobs	Combined (Custom & Published)	8%	12.1%	-2.8%

- Non-investment jobs are aligned with the market when comparing current midpoints against market median actual salaries plus incentive compensation.

¹% of organizations offering incentives aligns with custom survey results; published survey sources were not comprehensive in their reporting of organizations offering incentives.

Market Premiums

Grade Reallocation Considerations

- On occasion, the internal evaluated rating of a job can be significantly misaligned with the market and therefore warrant consideration of a grade reallocation;
- In reviewing the market data obtained during this study, several IT jobs were identified as warranting consideration of a grade reallocation, as follows:

	Current Grade	Proposed MidPt	Market Rate	% Diff	Proposed Premium Grade	Proposed MidPt	Market Rate	% Diff
Job Classification								
Software QA Analyst	9	\$75,751	\$86,525	-12%	10	\$87,040	\$86,525	1%
Software Developer	10	\$87,040	\$101,056	-14%	11	\$92,410	\$101,056	-9%
Sr. Software Architect ¹	12	\$104,559	\$140,403	-26%	14	\$120,784	\$140,403	-14%

Proposed Non-Investment Pay Structure

PROPOSED PAY STRUCTURE						
Grade	Job	Range Min	Range Mid	Range Max	% Spread	Current vs Proposed MidPt: % Diff
1	Records Specialist	\$33,460	\$40,152	\$46,844	40%	3%
2	Administrative Aide Facilities Technician Member Services Analyst I	\$37,690	\$45,229	\$52,767	40%	2%
3	Records Analyst	\$40,010	\$48,012	\$56,014	40%	1%
4	Facilities Technician II*	\$42,316	\$50,780	\$59,243	40%	0%
5	Accounting Specialist Member Services Analyst II	\$45,230	\$54,276	\$63,322	40%	0%
6	Administrative Assistant Member Services Analyst Lead Accounting Specialist II* Computer Support Specialist	\$49,164	\$58,997	\$68,829	40%	0%
7	Legal Assistant City Support Analyst** Senior Computer Support Spec Technology Design Specialist Support Services Analyst Communications Analyst	\$54,334	\$65,201	\$76,067	40%	0%
8	Executive Assistant Accountant IT Business Process Analyst M.S. Business Process Analyst Regional Manager I Human Resources Generalist	\$56,697	\$70,871	\$85,045	50%	0%

Note: Red are new positions; green are IT and Acct positions that moved up a grade; *=new position created to build out job family (no incumbents); **=new position and current staff will be immediately reclassified into job.

Proposed Non-Investment Pay Structure

PROPOSED PAY STRUCTURE						
Grade	Job	Range Min	Range Mid	Range Max	% Spread	Current vs Proposed MidPt: % Diff
9	Actuarial Analyst Change Management Coordinator Senior Technology Design Specialist Systems Analyst Records Supervisor Accountant II* Investment Accountant Network System Administrator Regional Manager II	\$60,601	\$75,751	\$90,901	50%	0%
10	Process & Content Mgmt. Specialist Investment Accountant II* Network Security Analyst Senior Internal Auditor Senior Regional Manager QA/QC Analyst	\$69,632	\$87,040	\$104,447	50%	0%
11	Accounting Operations Supervisor Senior Systems Analyst Database Admin/Dev Senior Software Developer	\$73,928	\$92,410	\$110,891	50%	0%
12	Open Grade	\$83,647	\$104,559	\$125,470	50%	0%
13	Member Services Manager	\$84,451	\$109,786	\$135,122	60%	0%
14	Asst General Counsel I Network Operations Manager Senior Software Architect	\$92,911	\$120,784	\$148,657	60%	0%

Note: (Red) New positions; green are IT and Acct positions that moved up a grade; *=new position created to build out job family (no incumbents); **=new position and current staff will be immediately reclassified into job.

Proposed Non-Investment Pay Structure

PROPOSED PAY STRUCTURE						
Grade	Job	Range Min	Range Mid	Range Max	% Spread	Current vs Proposed MidPt: % Diff
15	Asst General Counsel II Investment Attorney I* Controller	\$100,991	\$131,288	\$161,586	60%	0%
16	Asst General Counsel III Investment Attorney II** Information Systems Manager	\$111,611	\$145,095	\$178,578	60%	0%
17	Director of Internal Audit Director of Human Resources Senior Project Manager Asst Dir of Info Resources	\$116,824	\$157,713	\$198,602	70%	0%
18	Director of Actuarial Services Investment Attorney III* Director of Govt Relations Director of Communications	\$127,990	\$172,787	\$217,583	70%	0%
19	Director of Finance Director of Member Services Director of Information Resources	\$134,390	\$181,426	\$228,462	70%	0%
20	Lead Investment Attorney	\$145,075	\$195,851	\$246,627	70%	0%
21	Deputy Executive Director General Counsel	\$160,331	\$216,447	\$272,563	70%	0%
22	Open Grade	\$168,347	\$227,269	\$286,191	70%	0%

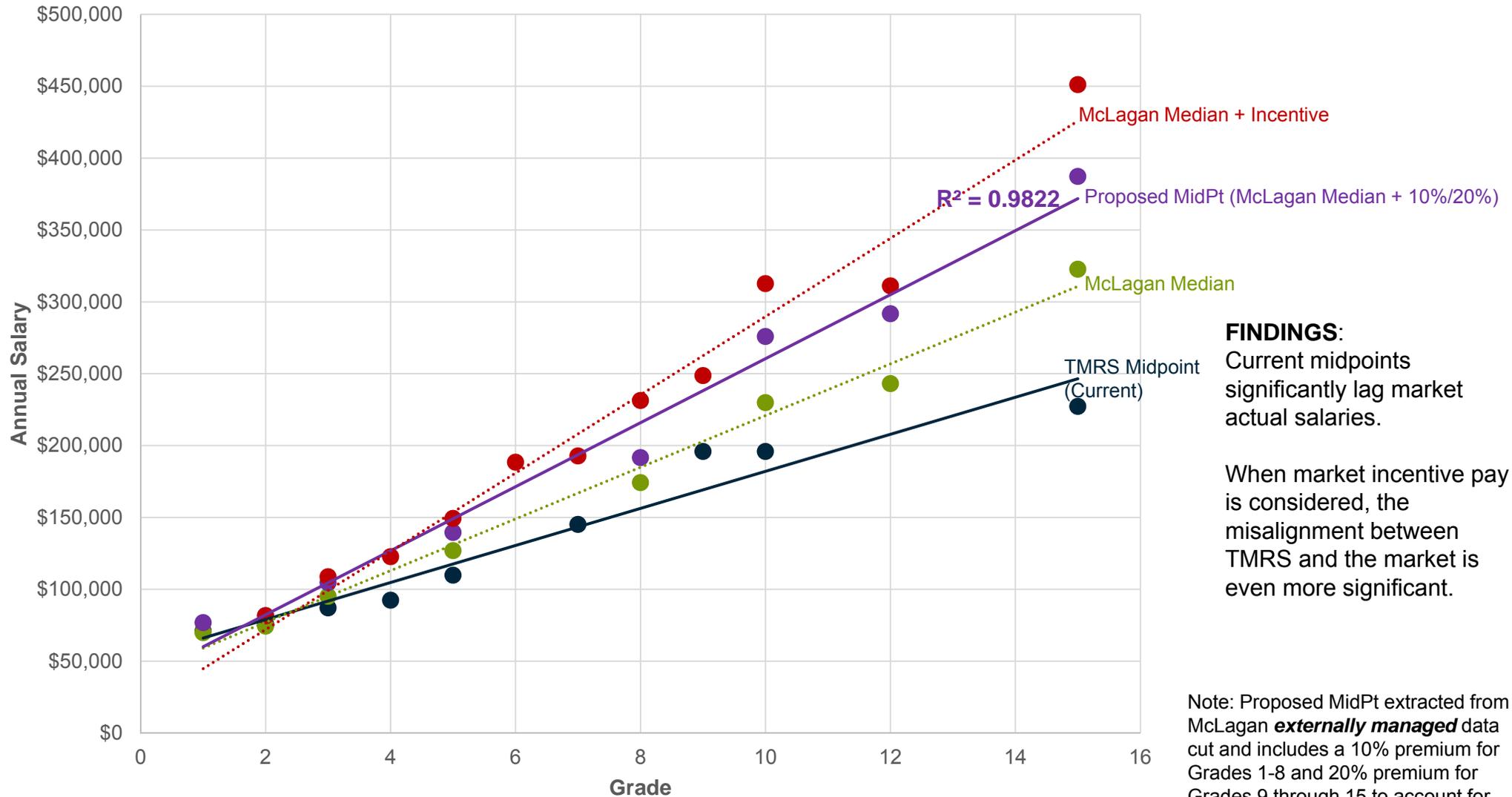
Note: Red are new positions; green are IT and Acct positions that moved up a grade; *=new position created to build out job family (no incumbents); **=new position and current staff will be immediately reclassified into job.

INVESTMENT JOBS

Compensation Analysis

Summary of Salary Data Comparisons

TMRS Current Range MidPoints vs Market Data Results



FINDINGS:
Current midpoints significantly lag market actual salaries.

When market incentive pay is considered, the misalignment between TMRS and the market is even more significant.

Note: Proposed MidPt extracted from McLagan *externally managed* data cut and includes a 10% premium for Grades 1-8 and 20% premium for Grades 9 through 15 to account for incentive pay (detailed on following slide).

Review of Incentive Compensation

Market Comparisons

- Incentive compensation can vary significantly year-over-year depending on the incentive plan design and market conditions;
- TMRS MidPoint vs Median Base+Inc Comp is reflective of the market's **target incentive** at goal and thus may not be reflective of actual payouts;

		Orgs Offering Incentives	Average Mkt Incentive	TMRS MidPt vs Median Base+Inc Comp
Employee Group	Market Sector			
Investment Jobs	Custom Survey	42.6%	44.7%	-34.3%
	McLagan Survey	N/A	25.1%	-47.7%

- Investment management jobs are significantly misaligned with the market when comparing current midpoints against market median actual salaries plus incentive compensation.

Proposed Investment Pay Structure

PROPOSED PAY STRUCTURE						
Grade	Jobs	Range Min	Range Mid	Range Max	% Spread	Current vs Proposed MidPt: % Diff
1I	Investment Support Analyst	\$59,067	\$76,787	\$94,507	60%	8%
2I	Investment Analyst I Operations Analyst I Data Analyst I Quantitative Analyst I	\$62,869	\$81,729	\$100,590	60%	8%
3I	Investment Analyst II Operations Analyst II* Data Analyst II* Quantitative Analyst II	\$80,465	\$104,605	\$128,744	60%	20%
4I	Investment Analyst III Quantitative Analyst III* Performance Analyst Compliance Officer	\$89,455	\$116,291	\$143,128	60%	26%
5I	Senior Investment Analyst* Investment Ops Manager Compliance Officer II*	\$107,346	\$139,549	\$171,753	60%	27%
6I	Open Grade	\$115,090	\$149,617	\$184,144	60%	N/A
7I	Investment Manager**	\$122,834	\$159,685	\$196,535	60%	10%
8I	Senior Investment Manager*	\$147,401	\$191,622	\$235,842	60%	N/A%
9I	Investment Directors (PubE & Risk)	\$192,923	\$250,800	\$308,677	60%	28%

Notes:
Ranges 1I through 8I incorporate a 10% market premium and 9I through 15I incorporate a 20% market premium to account for incentives paid in the market.

***=(Red)New position to build out job family; **=(Green)New title and current staff will be immediately reclassified into title.**

Proposed Investment Pay Structure

PROPOSED PAY STRUCTURE						
Grade	Jobs	Range Min	Range Mid	Range Max	% Spread	Current vs Proposed MidPt: % Diff
10I	Investment Directors (others)	\$212,215	\$275,880	\$339,545	60%	41%
11I	Open Grade	\$218,292	\$283,780	\$349,268	60%	N/A
12I	Deputy CIO*	\$224,370	\$291,680	\$358,991	60%	N/A
13I	Open Grade	\$246,806	\$320,848	\$394,890	60%	N/A
14I	Open Grade	\$271,487	\$352,933	\$434,379	60%	N/A
15I	CIO	\$297,873	\$387,235	\$476,597	60%	70%

Notes:
Ranges 1I through 8I incorporate a 10% market premium and 9I through 15I incorporate a 20% market premium to account for incentives paid in the market.
 * = (Red) New position to build out job family; ** = (Green) New title and current staff will be immediately reclassified into title.

Next Steps

- **Review and approval of proposed pay structures.**
- **Develop implementation costs following approval of pay structures.**
- **Continue to perform annual and long-term updates/reviews of pay structures to maintain competitiveness with market.**

Thank You

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